Supreme Court, U. S.
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IN THE

Supreme Court of the United States

No. 79-1439

WENDELL REICH AND ROBERT PAUL,
Petitioners,

VERSUS

REED TOOL COMPANY,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE SUPREME COURT OF THE STATE OF TEXAS

RESPONDENT'S BRIEF IN OPPOSITION

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Respondent Reed Tool Company respectfully requests that this Court deny the petition for writ of certiorari, seeking review of the final order of the Supreme Court of the State of Texas. The opinion of the Court of Civil Appeals for the Fifth Supreme Judicial District of the State of Texas (which the Supreme Court of the State of Texas refused to review, stating there was no reversible error) is reported at 582 S.W.2d 549, and a copy is attached to the petition as Appendix "A".

LACK OF JURISDICTION

Respondent respectfully submits that the petition for writ of certiorari should be denied because it was not filed in time. As the petition notes, the Supreme Court of the State of Texas entered its final order on December 5, 1979. Thus, the statute, 28 U.S.C. § 2101(c), requires that the petition must have been filed on or before March 4, 1980. An application by petitioners for an extension of the time in which to file the petition was filed on February 29, 1980 and denied on March 6, 1980. The petition was subsequently filed on March 15, 1980, some eleven days after the statutory deadline. Petitioners' petition for a writ of certiorari was not filed within the statutory time and should be denied for that reason.

QUESTION PRESENTED

Did petitioners misuse their patent rights by conditioning the grant of their patent rights to respondent upon a provision in the agreement requiring respondent to make payments on machines outside the lawful scope of petitioners' patent rights?

STATEMENT OF THE CASE

This is a contract case involving the application of the doctrine of misuse of patent rights. The opinion of the Texas Court of Civil Appeals (reported at 582 S.W.2d 549) is substantially correct in stating the nature and result of the case.

REASONS FOR DENYING THE WRIT

As the opinion of the Texas Court of Civil Appeals (582 S.W.2d 549) points out, petitioners conditioned the grant of their patent rights on a provision of the agreement sued

upon requiring respondent to make payments on machines not within any of petitioners' patent rights or prospective patent rights. The machine upon which payments were claimed, known as the "Stonekiller", is a substantial duplicate of a machine which has been in the public domain since the mid-1950's, long before petitioners made their "invention" in 1970. The Stonekiller was covered by an earlier expired patent. 582 S.W.2d at 551.

Petitioners have cited *no authority whatsoever* in support of the position they urge before this Court. Indeed, all of the authorities support respondent's position.

This Court has long and consistently held that any attempt to extend patent rights beyond their lawful and legitimate scope to gain an economic benefit not attributable to the use of the patent rights constitutes misuse of the patent rights and thereby renders unenforceable any agreement based on such misuse. *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917), *Carbice Corp. of America* v. *American Patents Development Corp.*, 283 U.S. 227 (1931), *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458 (1938), *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488 (1942), *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969). See also *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969).

Conditioning an agreement on a requirement that respondent pay on machines not within petitioners' patent rights or prospective patent rights constitutes misuse of those rights and renders the agreement unenforceable, as the Texas Court of Civil Appeals properly held. The rationale of the doctrine of misuse of patent rights applies equally as well to agreements involving prospective or inchoate

patent rights, such as those flowing from patent applications, as to agreements involving issued patents. The policy is to prevent those having prospective patent rights from using them as leverage to extract payments on devices which are in the public domain and not within those prospective patent rights. *Mutchnik* v. *M. S. Willett, Inc.*, 337 A.2d 72 (Md. Ct. App. 1975); *Richards* v. *Liquid Control Corporation*, 325 N.S. 2d 775 (Ill. App. Ct. 1975); *Krampe* v. *Ideal Industries, Inc.*, 347 F.Supp. 1384 (N.D. Ill 1972); *Key Pharmaceuticals, Inc.* v. *Lowey*, 373 F.Supp. 1190 (S.D.N.Y. 1974); *Anderson Co.* v. *Trico Products Corp.*, 237 F.Supp. 834 (W.D.N.Y. 1964).

In *Mutchnik* v. *M. S. Willett, Inc.*, 337 A.2d 72, 75 (Md. Ct. App. 1975), the court said.

> As we understand it, there are two elements in a claim of patent misuse under *Zenith*, namely, conditioning and improper extension of the patent monopoly to cover unpatented products.

The *Mutchnik* court quoted the following language from *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969):

> And just as the patent's leverage may not be used to extract from the licensee a commitment to purchase, use or sell other products according to the desires of the patentee, neither can that leverage be used to garner as royalties a percentage share of the licensee's receipts from the sale of other products; in either case, the patentee seeks to extend the monopoly of his patent to derive a benefit not attributable to use of the patent's teachings.

This Court in *Zenith* held in no uncertain terms that

> conditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent does amount to patent misuse. 395 U.S. at 135.

This case falls squarely within the definition of misuse set forth in *Zenith*. Article (1)(d) of the agreement (quoted at 582 S.W.2d 551) requires respondent to pay on drilling equipment which does not use the teaching of petitioners' patent application or patent, and the jury found that petitioners conditioned the agreement upon this requirement. 582 S.W. 2d at 553-5.

In *Mutchnik* v. *M. S. Willett, Inc.*, 337 A.2d 72 (1975), the Court of Appeals of Maryland, as mandated by *Zenith*, held that an agreement is unenforceable because of misuse where the agreement (an exclusive license) is conditioned upon the requirement that the exclusive licensee shall make payments on devices not within the licensed patent application or subsequently issuing patent. As in this case, *Mutchnik* involves the application by a state court of the doctrine of misuse of patent rights in a factual context wherein the agreement sued upon was entered into during the pendency of the application for a patent. The patent subsequently issued and thereafter a dispute arose with respect to what devices were properly includable within the agreement.

The *Mutchnik* court of appeals reversed the trial court because there was no conditioning as required by *Zenith*. However, in our case, the jury has found conditioning, and *Mutchnik* coupled with *Zenith* compel an affirmance of the lower court's opinion that petitioners take nothing because the agreement constitutes a misuse and is therefore unenforceable.

In *Richards* v. *Liquid Controls Corp.*, 325 N.E.2d 775, 777 (Ill. App. Ct. 1975), the agreement sued upon included the assignment of certain *patent applications* (not issued patents) upon which one or more patents subsequently issued. While implicitly recognizing the applicability of the doc-

trine of misuse in such a situation, the court did not apply it because Richards (the plaintiff-assignor) did not condition the agreement (which was an assignment but which was also referred to as a license by the court) on the payment on the manufacture and sale of similar items which do not embody the subsequently-issued patent. 325 N.E.2d at 784. In this case, the jury found the requisite conditioning with respect to Article (1)(d) which requires payment on the manufacture and sale of similar items (i.e., Stonekillers) on which an earlier patent had expired (582 S.W.2d at 551) and which were thereby in the public domain.

In *Glen Mfg. Inc.* v. *Perfect Fit Industries, Inc.*, 420 F.2d 319, 321 (2d Cir.), cert. den. 397 U.S. 1042 (1970), the Court noted the Supreme Court's reliance on

> the principle that a patentee may not use the power of his patent to levy a charge for making, using, or selling products not with the reach of the monopoly granted by the Government

in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136-137 (1969), and applied that principle in a suit for a breach of an agreement calling for payment on all toilet tank covers (the subject matter of the patent) instead of only on those coming within the scope of the patent. The court remanded the case for a finding on conditioning, an element which the jury has already found in this case. *See also, Beckman Instruments* v. *Technical Development Corp.*, 433 F.2d 55 (7th Cir. 1970), cert. den. 401 U.S. 976 (1971).

Thus, contrary to the position urged by petitioners, the doctrine of patent misuse is equally as applicable to agreements dealing with prospective patent rights, such as applications for patents, as it is to agreements dealing with issued patents. *Mutchnik* v. *Willett*, 337 A.2d 72 (Md. Ct. App. 1975); *Richards* v. *Liquid Controls Corp.*, 325 N.E.2d 775 (Ill. App. Ct. 1975), each of which is discussed above.

In *Krampe* v. *Ideal Industries Inc.*, 347 F.Supp. 1384 (N.D. Ill. 1972), misuse was found in an exclusive license agreement relating to a *pending patent application* because of an anti-competitive provision. The opinion contains an excellent discussion of the effect of entering into a misuse agreement during the pendency of an application for a patent and the subsequent issuance of the patent. The *Krampe* court applied the doctrine of patent misuse to plaintiff's "inchoate rights" and held the subsequently issued patent to be unenforceable.

> These rights included, *inter alia*, that of assigning of rights and licensing under his potential patent, as well as that of collecting royalties for the use of his invention. 347 F.Supp. at 1386-7.

In our case, petitioners exercised their inchoate right of assigning their right to a patent and collecting payments for the use of their invention.

> Thus plaintiff's application clearly was still pending at the time he entered into the contract, thereby affording him the inchoate rights which subsequently ripened into his Letters Patent. 347 F.Supp. at 1387.
>
> Further, as defendant asserts, the contracting parties contemplated plaintiff's patent protection, for the agreement recites that plaintiff is the owner of "protective rights" in the cable stripper. Thus, plaintiff intentionally was using whatever rights he possessed in the product to effect the agreement precluding the sale of competing, nonpatented cable strippers. 347 F.Supp. at 1387.

So, too, in our case, the patent application was pending when the contract was entered into, thereby affording petitioners the inchoate rights which subsequently ripened into their patent. Thus, petitioners in our case were using whatever rights they possessed to effect the agreement

requiring respondent to make payments on competing, non-patented machines (the Stonekillers) not within their inchoate patent rights. The *Krampe* court went on to say:

> Accordingly, this Court finds that plaintiff's use of the rights which he possessed in his invention to secure an additional right to which he was not entitled, combined with his maintaining the objectionable terms of the contract after these rights had ripened into a patent monopoly, constitutes misuse of his patent for the cable stripper. 347 F.Supp. at 1387.

Accordingly, respondent respectfully submits that the state courts properly held that petitioners' use of their inchoate rights to secure an additional right to which they were not entitled, combined with their attempted enforcement of the objectionable provision by making a judicial demand for payments on machines not within their patent rights constitutes misuse of their patent rights.

In *Key Pharmaceuticals Inc.* v. *Lowey,* 373 F.Supp. 1190 (S.D.N.Y. 1974) misuse was found because the exclusive license agreement licensing a pending patent application was not limited to the coverage of the patent application or the subsequently issued patent, a situation indistinguishable from our case.

In *Anderson Co.* v. *TriCo Products Corp.*, 237 F.Supp. 834 (W.D.N.Y. 1964) misuse was found because of a "standardization" clause requiring an anti-competitive use of plaintiff's design. The Court held:

> "In the first instance, by use of its *prospective patent power,* Anderson Co. misused the patent by exacting the" [misusing clause]. 237 F.Supp. at 838; emphasis added.

All of these cases involving an application for a patent (at the time the agreement in suit was entered into) cite

and rely upon misuse decisions, particularly those by this Court, which involve issued patents rather than pending applications. No legal distinction with respect to misuse is or can be drawn between patent rights arising out of a patent application on the one hand and an issued patent on the other hand.

Petitioners urge that the doctrine of misuse of patent rights applies only when there is a license of patent rights, rather than when there is a purported assignment. In our case, the agreement sued upon is rather loosely referred to by petitioners as an "assignment" of patent rights. More precisely, it is a conditional assignment with a contingent right of reassignment and therefore is not an absolute unconditional assignment. The patent in suit is not presently owned by respondent, but was reassigned to petitioner Reich pursuant to the agreement. 582 S.W.2d at 551.

In *Compton* v. *Metal Products Inc.*, 453 F.2d 38 (4th Cir. 1971), the court specifically rejected the very argument which petitioners assert in this case:

> The Special Master found that, "While the patents in suit were part of the assets sold by Joy to Polan, no royalties are payable on the patents as such and, consequently, the agreement does not constitute a patent license agreement but rather a sales agreement and an assignment of all rights under certain patents, tantamount to an assignment of the patents themselves. *Being an assignment of patent rights rather than a license, the rules applicable to misuse as applied to license agreements do not apply.*" • • • *We disagree.* 453 F.2d at 46; (emphasis added).

The court then proceeded to find that the agreement in question constituted a misuse of the patents to which it related.

Thus, with respect to the patent rights granted, be they inchoate or extant, for purposes of misuse there is no practical or legal difference between an exclusive license and an

assignment. In both instances, the licensor and the assignor grant to the licensee or assignee all of the exclusive rights to practice the invention and to prevent others from doing so. These are the so-called "monopoly rights". Neither the licensor nor the assignor retain any right to practice the invention, nor may either grant any rights to any others. Where an application for a patent has been either assigned or licensed exclusively and the patent subsequently issues, the "ripened" patent rights or "monopoly rights" are exercised by the assignee or exclusive licensee *only,* and not by the assignor or licensor. The exclusive licensor keeps bare legal title whereas the true assignor unconditionally passes title without a contingent right of reassignment. For purposes of the application of the doctrine of misuse of patent rights, it matters not who holds bare legal title. Misuse has been applied in both kinds of cases without differentiation or distinction.

The leading case for the proposition that an exclusive patent license is the legal equivalent of a patent assignment is *Waterman* v. *Mackenzie,* 138 U.S. 252, 256 (1891) wherein this Court held:

> Whether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of its provisions. *For instance, a grant of an exclusive right to make, use and vend two patented machines within a certain district, is an assignment,* and gives the grantee the right to sue in his own name for an infringement within the district, because the right, although limited to making, using and vending two machines, excludes all other persons, even the patentee, from making, using or vending like machines within the district. (emphasis added)

In *Perry Equipment Corp.* v. *Keller,* 172 U.S.P.Q. 145, 148 (151st Jud. Dist., Harris County, Texas, 1971), the Court concluded as a matter of law:

> An exclusive license to make, use and sell under a U.S. patent is an assignment.

The Court of Claims in *Melin* v. *United States,* 478 F.2d 1210 (1973) held that an exclusive license was an assignment.

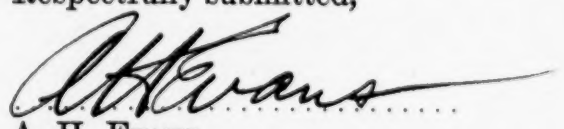
> Although the agreement of December 8, 1964, between Mr. Melin and Rainier was in the form of a license, it granted to Rainier the exclusive right to make, use, and sell the mechanical off-bear and slab-handling apparatus, and, therefore, it was, in substance, a sale or assignment of the entirety of Mr. Melin's rights (if any) in this invention, rather than a mere license. 478 F.2d at 1212.

Thus, petitioners' attempt to avoid the application of misuse because this case involves a conditional assignment is without merit and should be disregarded.

CONCLUSION

For these reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,



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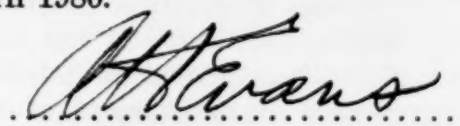
CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing RESPONDENT'S BRIEF IN OPPOSITION was served on petitioners by mailing (certified postage prepaid, return receipt requested) three copies to their counsel of record, Larry Cain, Esq., of Kennedy, Minshew, Evans, Campbell & Cain, Professional Building, Suite 207, Sherman, Texas 75090; this 10th day of April 1980.



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